November 3, 2004

Minutes Of The Meeting Of The
Treasury Borrowing Advisory Committee
Of The Bond Market Association
November 2, 2004

The Committee convened in closed session at the Hay-Adams Hotel at 11:54 a.m. All members of the Committee were present. Acting Assistant Secretary for Financial Markets Timothy Bitsberger welcomed the Committee and gave them the charge.

The Committee first addressed the question in the Committee charge (attached) concerning the revised version of the chart package that Treasury releases on Monday during the week of the refunding. The members were asked for their views on the proposed changes and suggestions for further improvements. The Committee was specifically asked by Mr. Bitsberger to comment on the suitability of the charts for preparing the Committee for meetings as opposed to implications that could be derived from the charts. As a preface to the Committee discussion on this issue, Mr. Bitsberger presented the revised package. The charts were divided into four sections.

The first section of the chart package included eight charts and highlighted current financing, with a discussion of short-term and medium-term borrowing requirements, cash balance estimates, and the issuance schedule. The charts indicated that expected net-marketable borrowing will be $100B this quarter and $147B next quarter, and current coupons are adequate to meet expected borrowing assuming a 5% projected GDP growth rate, revenues rising to historical averages, and expenditures falling below historical averages.

Committee members suggested that the daily cash balance should include averages and volatility measures and that the criteria for changes in issuance sizes should be spelled out in the hypothetical issuance charts.

The second section of seven charts dealt with the Treasury debt portfolio, highlighting the maturity, issuance, and debt outstanding profile. The charts in this section showed that average maturity of issuance stabilizes, averaging 2.8 years and the maturity of outstanding issues drops from 4.6 years to 4 years over the next 5 years, while the composition of nominal issuance remains within historical ranges. In addition, the charts indicated that the current issuance patterns would lead to a growing proportion of 5-year notes and TIPS in the portfolio. Finally, the percent of debt that matures within 3 years is projected to remain stable over the next 4 years, at roughly 60%.

Committee members had several comments on the second section. One Committee member thought that it would be very helpful to add an effective duration chart to the maturity section. This would help to capture the effects of TIPS and callable securities on the maturity profile. Several members thought that Treasury should include more forceful disclaimers on several of the charts in this section, particularly ones that contained portfolio projections. There was a concern that the projected data presented in these charts might be viewed by some observers as targets, when in reality the projections are designed to illustrate various outcomes if certain financing patterns are employed by the Treasury over several years.

Another committee member asked if the "Treasury Annual Net Market Borrowing" chart could break out the maturities of securities in finer tranches, for example showing both 5 year and 10 year securities separately, as opposed to aggregating the securities in broad maturity buckets. Another Committee member questioned the usefulness of "The Distribution of Marketable Debt Outstanding" bar chart, suggesting that it showed rollover risk which was already presented earlier in a line chart with the same title.

The third section of contained two charts and highlighted the uncertainty Treasury faces in its financing operations; it included a discussion of stresses to issuance and borrowing costs. This section indicated that deficit forecast errors for FY 2004 were comparable to previous forecast errors and that the current issuance pattern has Treasury equally well positioned for higher or lower deficits.

One committee member suggested that the "Average Absolute Federal Budget Forecast Error" chart may raise questions by the public unless the variance around the error was included. Other committee members agreed that adding variance to the chart would be helpful.

The fourth section contained a series of six charts on capital markets, highlighting Treasury's share of global and domestic markets and Treasury's liquidity. The capital markets section indicated that foreign holdings of Treasury debt are at historical highs. Also, Treasuries represent a small proportion of the domestic debt stock. And finally that debt outstanding as a percent of GDP compares favorably to that of many other large economies

The Committee felt that better labeling was needed on the "U.S. Debt compared to G-7" chart to indicate that the average is unweighted. A small discussion ensued with Committee members spilt on whether a weighted average should be included as well. Some members argued that a weighted average would skew the data dramatically.

On the chart titled "Treasury Bills as a Percentage of the Money Market", the Committee felt that short coupons should be included in the denominator of the calculations underlying the chart.

The Committee's then provided some broader comments on the package. They indicated that over the last several years there has been dramatic improvement in the data and the charts that Treasury provides. One member suggested that some narrative should be included; that the chart package should be put into a presentation that "told a story" because there were some points in the package where first time users of the charts might miss particular points. Others felt that the bullet charts in this modified package provide highlights and were sufficient. Another member suggested that perhaps more descriptive titles on some of the charts – with conclusions -- were all that was needed. One member cautioned about being too narrative.

In other broad comments, a member suggested that charts dealing with longer-term financing issues should be included. A discussion followed about the usefulness of long-term numbers, given the accuracy of projections beyond 2 or 3 years. Others suggested that more charts illustrating the "demand side" be included, such as primary dealer awards, auction histories and tails.

The Committee then discussed its final borrowing recommendations for the November refunding and the remaining financing for this quarter as well as the January-March quarter. Those charts are attached.

The meeting adjourned at 1:00 p.m.

The Committee reconvened at the Hay-Adams Hotel at 2:45 p.m. All members of the Committee, were present. The Chairman presented the Committee report to Acting Assistant Secretary for Financial Markets, Tim Bitsberger. A brief discussion followed the Chairman's presentation but did not raise significant questions regarding the report's content.

The meeting adjourned at 3:00 p.m.

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Jeff Huther
Director
Office of Debt Management
November 2, 2004

Certified by:

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Mark B. Werner, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
November 2, 2004

Treasury Borrowing Advisory Committee Quarterly Meeting
Committee Charge – November 2, 2004

Quarterly Refunding Chart Package

We will show you a revised version of the chart package we release on Monday of the week of the refunding. We would like the Committee's view on the proposed changes and suggestions for further improvements.

Financing this Quarter

We would like the Committee's advice on the following:

- The composition of Treasury notes to refund approximately $48 billion of privately held notes and bonds maturing on November 15 (this includes $3.1 billion of the 10 3/8% 11/15/04-09 that was called on 7/15/04).
- The composition of Treasury marketable financing for the remainder of the October-December quarter, including cash management bills if necessary.
- The composition of Treasury marketable financing for the January-March quarter.